



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matsor
Director*

July 2, 2003

Dear System Plan Member,

On July 1, 2003, the Arizona State Retirement System (ASRS) celebrated its 50th anniversary. Our System Plan members have received distributions of investment earnings when those earnings exceeded the plan's actuarial assumed interest rate. That has been the circumstances for every year but two. For each of those two years, System members received no additional monies but did continue to receive their accruals from prior years' distributions. These excess earnings come to system members through the 13th check for retirees and the supplemental credit for those who have not yet retired.

As you know, in addition to not earning the actuarial assumed rate of return for the past two years, the ASRS has experienced investment losses, which make the actuarial loss even greater. In September 2002, the ASRS sent a letter to all System members explaining that for the first time, their account and benefits would have to be reduced due to investment losses experienced in fiscal year 2002. Subsequent to the mailing of that letter, a valuation of the System by the ASRS actuary determined that there still existed a surplus, accrued from prior years, which would allow the ASRS Board to avoid applying the 2002 losses to System retirement accounts that year.

While System members avoided any reduction in 2002, the ASRS Board realized they needed to prepare for the possibility of future years when the fund experiences real or actuarial losses and how those losses would apply to System member accounts. For fiscal year 2003, it has not yet been determined if a surplus is available for distribution to System members.

The ASRS, with assistance from its actuary and legal counsel, is drafting rules that will establish and clarify for System members how the Board plans to handle this eventuality. Before the Board begins the formal process of adopting a permanent ASRS rule as to how to apply future losses to System member accounts, they wish to gather your input and comments on these draft rules. The ASRS Board Rules Committee is holding two meetings and invites you to attend. Those meetings are set for the following dates and times:

July 14, 2003, 8:30 a.m.-11:30 a.m., ASRS Board Room, 3300 N. Central Ave., Phoenix, AZ.

July 16, 2003, 2:00 p.m.-4:30 p.m., ASRS Board Room, 7660 E. Broadway Blvd., Ste. 101, Tucson, AZ. (Although not an official meeting of the ASRS Board Rules Committee, one or more Board members may attend this meeting.)

A final committee meeting to review the draft rules with all the changes before presentation to the full Board will be held on **July 31, 2003, 2:00 p.m. – 4:00 p.m., ASRS Board Room, 3300 N. Central Ave., Phoenix, AZ.**

Beginning July 11, 2003, you will be able to review a copy of the draft ASRS rules from our web site, www.asrs.state.az.us. If you do not have access to the internet, copies will be available at the committee meetings. You may contact the ASRS External Affairs Division at (602) 240-2000, Ext. 5107 in Phoenix, (520) 239-3100, Ext. 5107 in Tucson or 1-800-621-3778, Ext. 5107 outside Phoenix or Tucson, and request a copy by mail.

You are not required to attend any of the committee meetings to submit your comments. You can e-mail your comments or suggestions to SystemRules@asrs.state.az.us, or mail your comments to:

Arizona State Retirement System
Attn: System Rules
P.O. Box 33910
Phoenix AZ 85067-3910

All comments must be received by July 23, 2003.

If you have any questions, please contact Nancy Johnson, ASRS Rules Coordinator at (602) 308-5172 in the Phoenix area, at (520) 239-3100 ext. 5172 in the Tucson area, or at 1-800-621-3778 x 5172 from all other areas.

Paul Matson, Director
Arizona State Retirement System